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STATE FOR NEA/ARPI, EB/CIP (AGIBBS)
STATE PASS TO USTR FOR JBUNTIN

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SUBJECT: OMANTEL TO FACE FIXED-LINE COMPETITION

REF: SANAA 221

CONTAINS SENSITIVE BUSINESS INFORMATION, PLEASE PROTECT.

SUMMARY

1. (SBU) A Telecommunications Regulatory Authority (TRA) Commissioner predicted that Oman would issue a second fixed-line license within the next year, ending Omantel's monopoly. She also predicted that Oman would open up the value-added services sector within the next three months, but would not address the issuance of another mobile license until 2008. Meanwhile, Omantel sets its sights on growth, rather than shareholder value, with an eye toward international expansion. End Summary.

COMPETITION COMING

2. (SBU) In a February 21 meeting with Econoff and USTDA contractor, TRA commissioner Naashiah Saud al-Kharusi said that Oman intends to tender a second fixed-line license within the next year. The move, in keeping with Oman's WTO and FTA commitments, would end government majority-owned Omantel's fixed-line monopoly. The TRA has prequalified seven companies for the consultancy contract, and al-Kharusi expects to move forward with the bidding in the next 3 months. Al-Kharusi further noted that the TRA would also open the value-added services sector (i.e. internet providers) within the next 3 months.

3. (SBU) Plans to expand the mobile market beyond incumbents Oman Mobile (a subsidiary of Omantel) and Nawras (an Omani, Qatari, and Danish consortium) are on hold, a result of a 3 1/2-year moratorium established with the issuance of a second license in June 2004. While al-Kharusi did not rule out the addition of a third mobile license, she commented that future expansion would depend on a thorough market analysis.

GROWTH AT WHAT COST?

4. (SBU) Al-Kharusi surmised that Omantel would need to move quickly to next-generation technology. She dismissed concerns that Omantel would suffer commercially as a result of second license, noting that Oman Mobile would not have grown its business had it not been for competition from Nawras. Al-Kharusi also disavowed TRA intervention in newly emerging technologies such as Voice over Internet Protocol (VOIP), stating that the government would not stand in the way of advances so long as providers held both voice and data licenses. (Note: Omantel, as the sole internet service provider, has been blocking subscribers' ability to download VOIP software. End note.)

5. (SBU) Omantel, meanwhile, is looking beyond its borders to grow its business. In a January 23 meeting with investors, Omantel Executive President Mohammed bin Ali al-Wuhaibi stressed continued growth, rather than strengthening shareholder value, as key to Omantel's future profitability. Omantel's stock on the Muscat Securities Market has been taking a pounding in recent months, and is consistently the volume leader in daily trading activity.

6. (SBU) In a separate meeting on February 20, Dr. Rasheed al-Huraibi, Director of Strategic Development for Oman Mobile, told econoff that Omantel was looking to Yemen, Sub-Saharan Africa and the GCC for further market growth. Regarding Yemen, al-Huraibi acknowledged that Omantel's \$100 million bid for the third mobile license was "too much," but suspected that Omantel, keen on gaining access to a market of 20 million should Unital's "winning" bid of \$150 million not materialize, would be willing to negotiate on the terms of a contract.

COMMENT

17. (SBU) Omantel faces the dilemma of being a large legacy player in a small market that is becoming more competitive. In looking for expansion opportunities, Omantel is seeking high population, low penetration markets. What remains to be seen, though, is how much Omantel will pay for access to these markets in the wake of investor anxiety over falling share prices, which have recently plunged 42% on disappointing earnings reports.

BALTIMORE